

Audit plan

Carlisle City Council

Audit 2011/12



Contents

- Introduction.....3
- Accounting statements and Whole of Government Accounts.....4
- Value for money.....8
- Key milestones and deadlines9
- The audit team10
- Independence and quality11
- Fees12
- Appendix 1 – Independence and objectivity15
- Appendix 2 – Basis for fee.....17
- Appendix 3 – Glossary18

Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Council to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council's information systems.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: **Significant risks**

| Risk | Audit response |
|---|--|
| <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities held and maintained principally for its contribution to knowledge and culture. For the Council this is likely to include your assets and artefacts at Tullie House Museum. In its 2010/11 accounts the Council disclosed it had nearly £16 million of heritage assets at 1 April 2010. There is a risk the Council may be unable to identify and account for all heritage assets due to the volume of assets and artefacts and the complexity of the valuations.</p> | <p>I will evaluate the management controls you have in place to recognise and value heritage assets. I will also undertake testing to check that the Council has accounted for heritage assets in accordance with FRS 30 and the Code and the financial statements are materially stated.</p> |
| <p>The Council is required to ensure the value of its investment properties reflects market conditions at the balance sheet date. The value of the Council investment properties is around £102 million but a number of assets, with a value of over £81 million, have not been re-valued since 31 March 2009. There is a risk the valuation reported in the financial statements will be materially misstated due to changing market conditions.</p> | <p>I will discuss with the Financial Services Manager and Chief Accountant the Council planned programme of investment properties revaluations for 2011/12.</p> <p>Procedures for reliance on the work of the valuer.</p> <p>I will review in detail the Council's valuer's consideration of any investment properties not re-valued in 2011/12 and assess its validity.</p> |
| <p>The Council is required to produce Whole of Government Accounts (WGA) which are consistent with its main financial statements. As last year, there is a risk that your WGA will double count gross income and gross expenditure meaning that your WGA will be materially misstated.</p> | <p>I will discuss with the Financial Services Manager and Chief Accountant progress made on addressing the problems identified in 2010/11.</p> <p>I will review in detail the Council's reconciliation of gross income and gross expenditure in its main financial statements and WGA.</p> |

Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 2: **Proposed work**

| | Review of internal audit | Controls testing | Reliance on the work of other auditors | Reliance on work of experts | Substantive testing |
|---------------|--|--|--|-----------------------------|---|
| Interim visit | Reliance on any controls and substantive testing providing it clearly covers the relevant assertions. Review any work on management controls in place to recognise and value heritage assets. | Payroll, Accounts payable and Accounts receivable. | | | Investments and other non-current assets – ownership and existence. Payroll classification. Accounting entries relating to pension contributions and liabilities. |

| | Review of internal audit | Controls testing | Reliance on the work of other auditors | Reliance on work of experts | Substantive testing |
|-------------|---|------------------|--|--|--|
| Final visit | Head of Internal Audit's Opinion on internal control. | | Pensions assets and liabilities – auditor to Cumbria Local Government Pension Fund | Pensions liabilities and assets – Mercers (the Pension Fund actuary) and our own consulting actuary Valuation of property, plant and equipment – the Council's in-house valuer. | All material accounts balances and amounts Year-end feeder system reconciliations |

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

I am required to reach a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Council's arrangements is based on two criteria, specified by the Commission. These relate to the Council's arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following significant risks that I will address through my work and will report my findings in my Annual Governance Report.

Table 3: **Significant risks**

| Risk | Audit response | Audit output |
|--|--|---|
| The Council's proposals for cost reduction do not progress as quickly as forecast and savings are not made which reduces the Council's financial resilience. | I will review the regular financial monitoring reports and updates to the Medium Term Financial Plan discuss any concerns with the Assistant Director (Resources). | Included as part of my Annual Governance Report to be issued in September 2012. |

Key milestones and deadlines

The Council is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 4: **Proposed timetable and planned outputs**

| Activity | Date | Output |
|--|----------------------------|-----------------------------|
| Opinion: controls and early substantive testing | December 2011 – May 2012 | Review of Financial Systems |
| Opinion: receipt of accounts and supporting working papers | By 30 June 2012 | None |
| Opinion: substantive testing | Late June – September 2012 | Annual Governance Report |
| Present Annual Governance Report at the Audit Committee | By 30 September 2012 | Annual Governance Report |
| Issue opinion and value for money conclusion | By 30 September 2012 | Auditor's report |
| Certify Whole of Government Accounts return | By 30 September 2012 | Certificate |
| Summarise overall messages from the audit | October 2012 | Annual Audit Letter |

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

| Name | Contact details | Responsibilities |
|------------------------------------|---|---|
| Jackie Bellard District Auditor | j-bellard@audit-commission.gov.uk 0844 798 7011 | Responsible for the overall delivery of the audit including quality of reports, signing the Auditor's report and liaison with the Chief Executive. |
| Richard McGahon Audit Manager | r-mcgahon@audit-commission.gov.uk 0844 798 4760 | Manages and coordinates the different elements of the audit work. Key point of contact for the Assistant Director (Resources) and Financial Services Manager. |
| John Cangle Principal Auditor | j-cangle@audit-commission.gov.uk 0844 798 4755 | Responsible for interim and final opinion audit work. Key point of contact for the Chief Accountant. |

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £116,921, as set out in my letter of 27 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £116,921 which represents a 5 per cent reduction on the planned audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements [and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Assistant Director (Resources) and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have identified the following actions.

- Ensuring the Valuer's report is clear on the impact of in year capital expenditure on individual asset values and then accounting for this correctly.
- Undertaking a more robust consideration of the need to disclose related party transactions in the accounts.
- Ensuring that your Whole of Government Accounts (WGA) are consistent with your main financial statements and that they do not include any double counting of gross income or gross expenditure.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charges fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: Fees

| | 2011/12 proposed | 2010/11 actual | Variance | Comment |
|-------------------------------------|------------------|-------------------|-----------------|---|
| Audit | 116,921 | 134,675 | (17,754) | Reduction following one-off work in 2010/11 associated with the first-time adoption of International Financing Reporting Standards and reduced value for money conclusion requirements. |
| Certification of claims and returns | 34,447 | 44,130 (estimate) | (9,683) | Additional work required on the housing and council tax benefit claim in 2010/11. Also reduction in 2011/12 because of reduced number of single programme claims requiring certification. |
| Non-audit work | 0 | 0 | 0 | |
| Total | 151,368 | 178,805 | (27,437) | |

The Audit Commission gave rebates on the audit fee for 2010/11 totalling £8,788 and so the final fee paid by the Council for the 2010/11 Audit was £125,887. The Audit Commission has also given a rebate of £9,354 (8 per cent) for 2011/12 audit fees and therefore the actual planned fee for the 2011/12 audit is £107,567.

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: **Independence and objectivity**

| Area | Requirement | How we comply |
|---|--|--|
| Business, employment and personal relationships | <p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p> | <p>All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.</p> |

| Area | Requirement | How we comply |
|-------------------------------------|---|---|
| Long association with audit clients | The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years. | The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met. |
| Gifts and hospitality | The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment. | All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval. |
| Non-audit work | <p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p> | All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised. |

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
 - internal controls are operating effectively; and
 - internal audit completes its work on the Council's key financial systems in accordance with the agreed deadlines.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Council provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June 2012;
 - other information requested within agreed timescales; and
 - prompt responses to draft reports.
- There are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Council's systems of internal control that supports the achievement of the Council's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of a Council and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

